Teachers' Pension Plan

Annual Report 2005

January 1, 2005 to December 31, 2005

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Teachers'
Pension Plan

Annual Report 2005

January 1, 2005 to December 31, 2005

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Teachers' Pension Board of Trustees

Front Row: Wayne Jefferson, John W. Cook, Tom Vincent

Middle Row: Carolyn Prellwitz, Joan Axford

Back Row: Linda Watson, Bruce Kennedy, Lucas Corwin, Ken Smith, Gerry Tiede, Dale Lauber

Message from the Board

The Teachers' Pension Board of Trustees is pleased to present this annual report for the fiscal year ending December 31, 2005. We are responsible for managing your pension plan, including administering benefits and investing approximately $14.0 billion in assets. To meet our responsibilities, we work with the BC Pension Corporation, our administrative agent, and the British Columbia Investment Management Corporation (BCIMC), our investment management agent.

We strive to deliver quality service to all of our 80,685 plan members. With this in mind, we work on your behalf to make sure you have the information and services you need, whether you are a new member, approaching retirement or receiving a pension from the plan.

In 2005, we added new information to the plan website, **tpp.pensionsbc.ca**, including highlights of board discussions and decisions, and regular reports on world investment market trends and the performance of plan investments. We made significant progress toward enhancing our online services, and we worked to simplify further our communications materials. To keep active members informed of changes in the plan and to provide them with a financial and investment overview, we introduced the *Report to Members*. We also introduced financial and investment summaries in *PensionNews* for our retired members.

Improvements to member services in 2005 included new enrolment rules that made enrolment mandatory, no matter what the individual's employment status. Also, the plan prepared for the expected increased purchase request workload as the March 31, 2007 deadline approaches for members to apply to purchase historical leaves of absence, non-contributory time and arrears.

In 2005, sound financial management was once again our focus. We worked with the Audit Committee, which provides financial oversight for the Teachers', College, Municipal and Public Service pension plans. The committee's mandate is to assist the plans in providing effective accounting and reporting systems, and in ensuring that their financial statements conform to generally accepted accounting principles. The committee also provides an independent review of, and report on, the plans' financial statements.

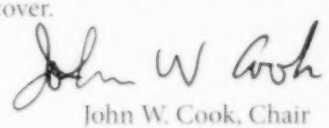
Our investment goals—to provide consistent and steady performance over the long term through sound investment principles—remained a priority. At the same time we looked at how we could work with BCIMC to enhance our environmentally sound and socially responsible investment strategies in response to member concerns around these issues.

In the coming year we will continue to work diligently on your behalf. We remind you that your

We strive to deliver quality service to all of our 80,685 plan members.

basic pension is secure. However, we will focus on inflation protection and the non-pension benefits—extended health and dental—as cost pressures and changing demographics challenge the plan's ability to provide these benefits.

If you would like to contact us or share your comments, please write or e-mail us at the address on the back cover.



John W. Cook, Chair

Teachers' Pension Board of Trustees

as at December 31, 2005

John W. Cook	Chair
Joan Axford	Secretary-Treasurer, School District #63 (Saanich)
Lucas Corwin	Executive Director, Labour Relations, Law and Legislation, Public Sector Employers' Council Secretariat
Wayne Jefferson	Retired Secretary-Treasurer, School District #36 (Surrey)
Bruce Kennedy	Executive Director, Pensions, Public Sector Employers' Council Secretariat
Dale Lauber	Retired Director, British Columbia Teachers' Federation
Carolyn Prellwitz	Assistant Director, Income Security, British Columbia Teachers' Federation
Ken Smith	Retired member
Gerry Tiede	Principal, School District #36 (Surrey)
Tom Vincent	Assistant Deputy Minister, Ministry of Advanced Education
Linda Watson	Teacher, School District #44 (North Vancouver)

Partners, Trustees and Agents

The Teachers' Pension Plan is jointly trusteed and is governed by a joint trust agreement. Joint trusteeship is the shared management of the plan by representatives of both plan members and government. The **plan partners** are the BC Teachers' Federation (BCTF) and the provincial government. The partners are responsible for appointing the trustees.

The **Teachers' Pension Board of Trustees** is responsible for managing the pension plan, including investment of assets and plan administration. The board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. If the plan's actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board. The corporation enrols members, collects contributions, processes benefits and issues pension payments.

The **British Columbia Investment Management Corporation** (BCIMC) provides investment management services as an agent of the board.

Teachers' Pension Board of Trustees

MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

Member Services and Communications

Communicating with plan members is a priority of the board. We look to the Internet as an effective and efficient communication tool, and continue to add to our online information and plan for future website enhancements. To make it easier to access online information, we recently adopted a new web address, **tpp.pensionsbc.ca**, that links members directly to the plan home page. To update active members on their benefits, service and contributions, we produce the annual *Member's Benefit Statement*. Along with the statement, we provide summary financial information and recent plan updates in the new *Report to Members*. We also regularly produce fact sheets, guides, forms and bulletins for active and retired members, and maintain online retirement planning tools and information. Twice a year, we publish a newsletter specifically for our retirees.

Pension information can sometimes be complex and difficult to communicate. Our communications staff follow approved guidelines to ensure that plan information is easy to understand and easy to use. By continually simplifying and focus testing many of our member and employer communications, we strive to improve their effectiveness and quality.

Performance Measures and Targets

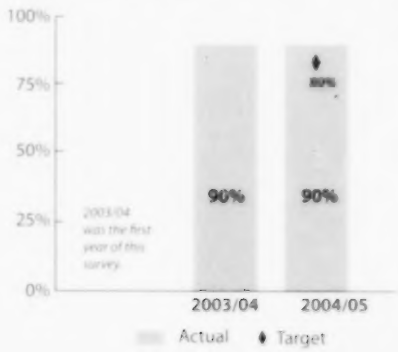
April 1, 2004 to March 31, 2005

The Teachers' Pension Plan is devoted to providing quality, cost-effective service to plan members. Our administrative agent, the Pension Corporation, made impressive gains in service improvements and efficiencies, including improving client response time. The length of time it takes to process members'

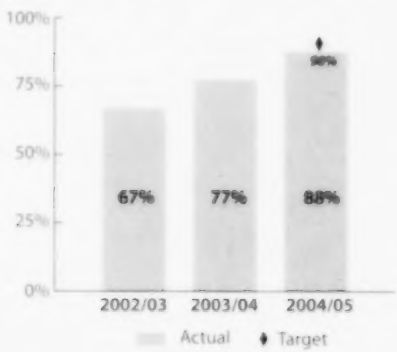
Satisfaction

Recently Retired Members

Longer-term Retired Members



Active Members



Note: Comparable targets were not established prior to 04/05.

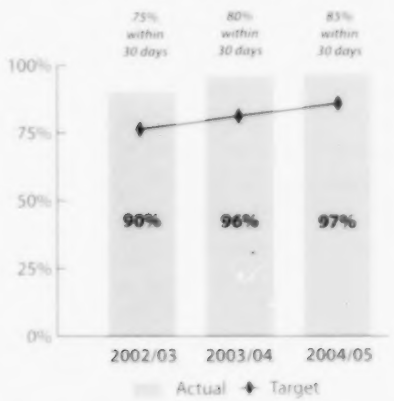
purchase requests has been reduced, and the purchase of service process has been simplified for members. Surveys of plan members are conducted regularly to evaluate improvement. The surveys show that both active and retired members give the Pension Corporation a high satisfaction rating for service quality.

The board approves service standards for the plan and monitors benefit administration performance against those standards. Key standards measure satisfaction with services (see below), and the timeliness of response for key service requests.

As the following graphs indicate, the plan has significantly improved service response over the past three years, while also handling substantial increases in service demand.

Annual service results are for the 12 months ending March 31, 2005, based on the board's service agreement with the Pension Corporation.

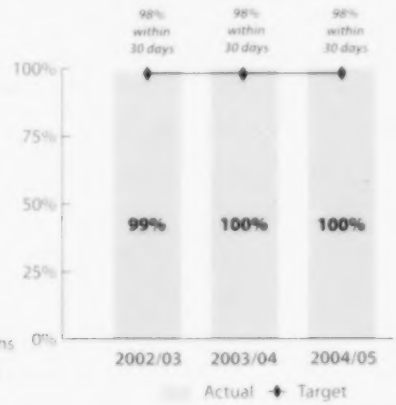
Final Pension Options on Time



2004/05 Service Requests*

* Service demand was 38% higher than forecast.

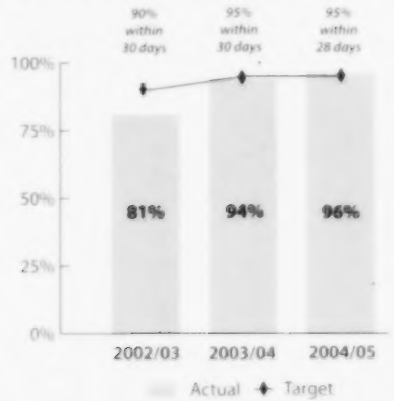
First Pension Payment on Time



2004/05 Service Requests*

* Service demand was 1% lower than forecast.

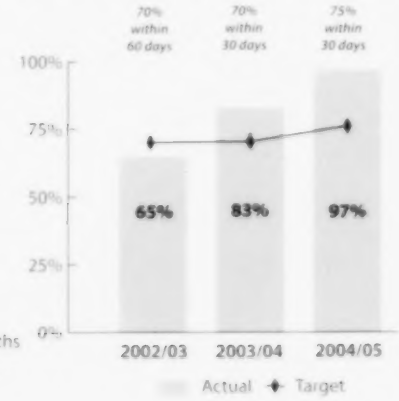
Termination Options on Time



2004/05 Service Requests*

* Service demand was 5% lower than forecast.

Purchase Quotes on Time



2004/05 Service Requests*

* Service demand was 32% higher than forecast.

Plan Participants

Membership in the Teachers' Pension Plan is open to all certified teachers...

Membership in the Teachers' Pension Plan is open to all certified teachers (including teachers on call), principals and vice-principals, directors of instruction, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of school trustees in the British Columbia public school system, and to eligible employees of other employers approved by the board. Effective July 1, 2005, the enrolment rules changed. New employees hired on or after July 1, 2005, including those employed in a less-than-half-time capacity, must be immediately enrolled in the Teachers' Pension Plan, and will no longer be allowed to opt out of enrolling in the plan. Existing employees as of July 1, 2005, who had previously waived enrolment in the plan must also be enrolled effective July 1, 2005. Employee contributions continue until the member terminates employment, retires, or accrues 35 years of pensionable service.

Participating employers are the school districts, the British Columbia College of Teachers, the British Columbia Principals' and Vice-Principals' Association, the British Columbia School Superintendents' Association, the British Columbia Teachers' Federation, the Francophone Education Authority, and the Teacher Qualification Service (British Columbia).

There are three categories of members in the Teachers' Pension Plan:

- **Active**—those who are currently contributing, or are receiving benefits from an approved salary continuance plan, or are on a leave of absence.
- **Inactive**—those who have terminated their employment and left contributions in the plan. They may or may not be eligible for a pension in the future. Those who are eligible for a pension in the future are known as vested and deferred members. If an inactive member not entitled to a pension under the plan again becomes an active member, they may become eligible for a pension by returning to work, recommencing contributions and accruing additional service in the Teachers' Pension Plan.
- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

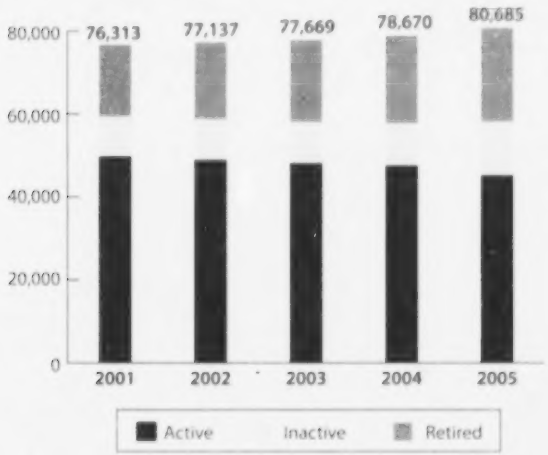
There are 44,965 active members in the plan, a decrease of 5% from 2004. The number of retired members increased by 7.5% to 22,636.

Plan Participants

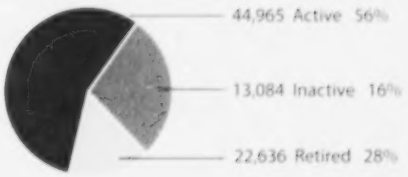
Number of Members

As at December 31	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
2005	**44,965**	**9,268**	**3,816**	**22,636**	**80,685**
2004	47,321	6,802	3,492	21,055	78,670
2003	47,878	6,757	3,301	19,733	77,669
2002	48,690	6,710	3,202	18,535	77,137
2001	49,435	6,486	3,087	17,305	76,313

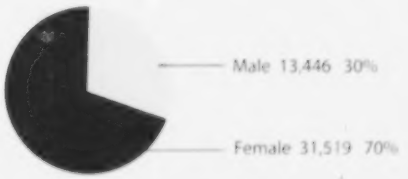
Number of Members



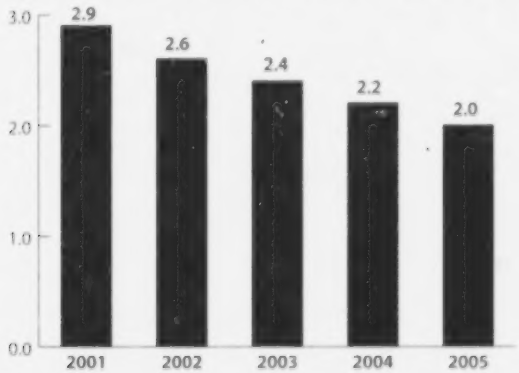
Membership Profile



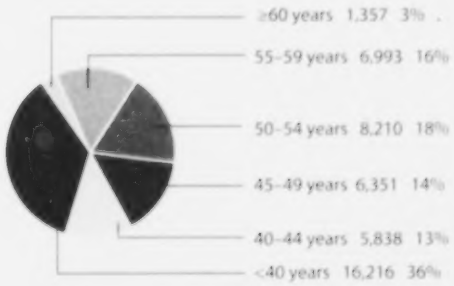
Active Member Profile



Ratio of Active Members to Retired Members



Age Profile of Active Members



Contributions

Plan members contribute through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. A member who terminates employment, retires, or reaches 35 years of pensionable service ceases contributions. For pensionable service over 35 years, the employer continues to contribute until the end of the calendar year in which the member reaches age 69. The contribution rates in the sidebar are applied to pensionable salaries.

Current contribution rates:

Member

- 7.55% of pensionable salary up to and including the YMPE,* and
- 9.05% of pensionable salary for salary in excess of the YMPE*

Employer

- 10.68% of pensionable salary up to and including the YMPE,* and
- 12.18% of pensionable salary for salary in excess of the YMPE*

* Year's Maximum Pensionable Earnings (YMPE) is the limit to earnings on which Canada Pension Plan (CPP) contributions are made. The 2005 YMPE was $41,100, and will increase to $42,100 in 2006.

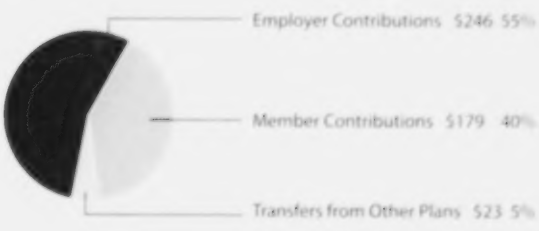
Contributions (including purchases of service)

Year Ended December 31
$ Millions

* Member contributions declined in 2000 as a result of decreased purchases of service.
** 1998 employer contributions includes $9.69 million early retirement funding from the Province.

Contribution Revenue

$ Millions



Plan Benefits

Pensions

Basic Pension (Guaranteed)

Plan benefits are defined by the pension plan rules made under the authority of the Joint Trust Agreement. The basic pension benefit is defined, meaning the pension is based on how many pensionable years the member has accrued in the plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that the pension is predictable. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

At December 31, 2005, the plan provided pensions to 22,636 retired members, an increase of 7.5% from the previous year.

The basic pension is paid from the Basic Account of the plan.

Indexing and Group Benefits (Non-guaranteed)

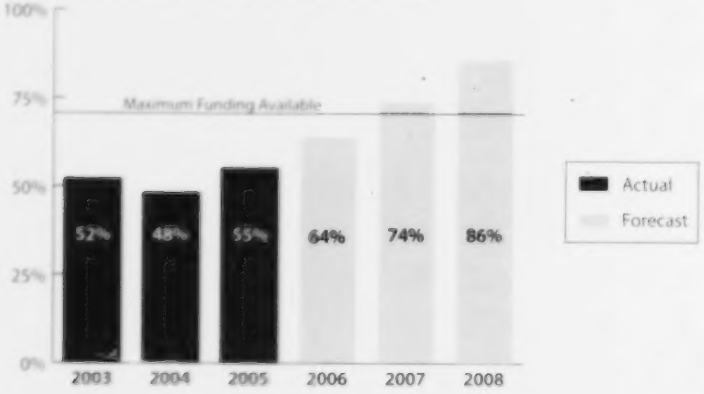
Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only to the extent that there is sufficient money in the Inflation Adjustment Account (IAA), which is funded by member and employer IAA contributions to the plan.

On January 1, 2005, retired members received a full Consumer Price Index (CPI) increase of 1.8%. On January 1, 2006, retired members will receive a full CPI increase of 3.4%. Inflation increases to the pension may be provided each year based on changes in the CPI. (See Note 7b to the Financial Statements).

Group benefits (extended health and dental) are not guaranteed. They are funded by a limited portion of employer contributions that would otherwise go to the IAA. The plan's ability to continue to provide non-guaranteed benefits such as indexing and group benefits continues to be monitored by the board.

The advantage of a defined benefit plan is that the pension is predictable.

Percentage of Available Employer IAA Contributions Used by Group Benefits



Pensions 1996–2005

	New Pensions During Year	Pension Terminations	In Force at End of Year	$ Millions Basic Pensions Paid	Inflation Supplements Paid	Total Pensions Paid
2005	**1,805**	**224**	**22,636**	**$479.3**	**$97.5**	**$576.8**
2004	1,598	276	21,055	437.5	92.2	529.7
2003	1,490	292	19,733	398.8	85.2	484.0
2002	1,542	312	18,535	361.6	78.3	439.9
2001	1,230	265	17,305	327.6	71.4	399.0
2000	831	291	16,340	305.8	64.2	370.0
1999	1,673	262	15,800	277.4	58.4	335.8
1998	1,370	291	14,389	242.2	58.8	301.2
1997	1,048	201	13,310	214.2	56.7	270.9
1996	970	228	12,463	192.0	54.9	246.9

New Pensions, by Type 1996–2005

	Regular*	Death*	Disability	LTD to Pension	Deferred	Total
2005	**1,596**	**18**	**–**	**119**	**72**	**1,805**
2004	1,407	19	1	108	63	1,598
2003	1,301	28	1	107	53	1,490
2002	1,381	24	1	73	63	1,542
2001	1,097	22	–	61	50	1,230
2000	717	13	3	67	31	831
1999	1,494	9	3	83	84	1,673
1998	1,207	19	5	54	85	1,370
1997	896	14	5	52	81	1,048
1996	787	13	9	60	101	970

* New pensions do not include any pension continued to a beneficiary upon the death of a retired member.

Average Value of New Regular Pensions January 1, 2005 to December 31, 2005

Subdivided by years of service

Years of Service*	Number of New Regular Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	65	$ 48,000	$ 5,200	$ 75,000	4.9
10–14	134	58,000	12,800	197,000	26.4
15–19	172	61,000	18,900	285,000	49.0
20–24	221	63,000	25,700	387,000	85.5
25–29	330	66,000	32,500	507,000	167.3
30–34	602	70,000	41,800	666,000	400.9
35 years	72	71,000	44,000	691,000	49.8
Total	**1,596**	**n/a**	**n/a**	**n/a**	**$783.8**
Average of All Pensions	n/a	$65,000	$31,400	$491,000	n/a

* Years of service includes service transferred from other plans.

New Regular Pensions, by Age at Retirement

Subdivided by years of service and age at retirement

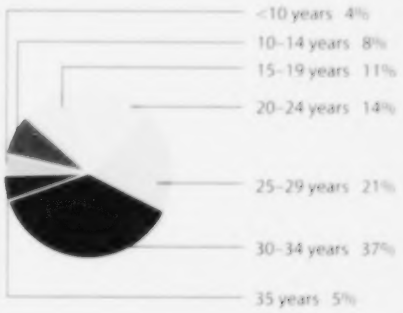
Years of Service	55	56–59	60–64	≥65	Total
<10 years	10	15	29	11	65
10–14	31	55	40	8	134
15–19	41	66	55	10	172
20–24	53	94	67	7	221
25–29	57	158	104	11	330
30–34	91	410	92	9	602
35 years	2	37	28	5	72
Total	285	835	415	61	1,596
Average years	24	27	24	20	25
Average age	–	–	–	–	59

Percentage of New Regular Pensions

by Age at Retirement

Percentage of New Regular Pensions

by Years of Service



Termination and Refund Benefits

A terminating member who is eligible for a pension but has not yet reached age 55 may choose:

- a deferred pension payable at age 55, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

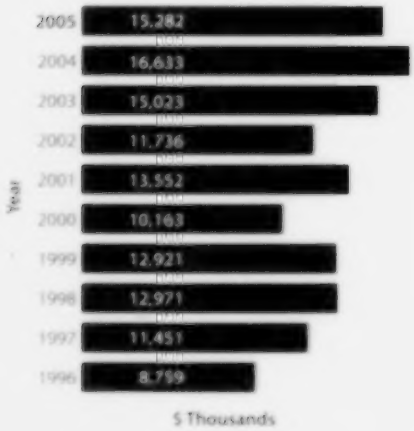
A terminating member may also choose to leave monies on deposit in the plan in anticipation of returning to work and accruing future pension entitlements. A member under age 60 with less than two years of contributory service may also choose a refund of contributions with interest.

Interest compounds annually and is credited to the member's contribution balance. This balance is included in the annual *Member's Benefit Statement*. The rate of interest is governed by the applicable pension legislation and is based on average five-year bank personal term deposit rates (2005: 2.46%; 2004: 2.74%). Note, these rates do not reflect the actual earnings of the pension fund.

The number and value of termination benefits paid can vary significantly from year to year, depending on the employment environment, the type of benefit paid and the member's entitlement. In 2005, the number and value of termination and refund benefits paid decreased compared to 2004.

Number of Termination and Refund Benefits Paid

Value of Termination and Refund Benefits Paid



Termination benefits paid include refunds of contributions and commuted value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has an agreement with the Teachers' Pension Plan. In order to transfer service, the member must have left contributions on deposit or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits.

Members who have made contributions to another pension plan in Canada may want to inquire about transfer agreements.

Under the BC Public Sector Pension Transfer Agreement (2004), transfers can be made between the Teachers' Pension Plan and the College, Municipal and Public Service pension plans and other signatories. In addition, an interprovincial reciprocal transfer agreement (effective January 1, 2002), allows members of teachers' pension plans throughout Canada (except Newfoundland and Labrador) to transfer their service between plans. A transfer agreement is also in-place with the Government of Canada.

In 2005, there were 522 reciprocal transfers-in from other pension plans and 177 transfers-out. The transfers-in totalled $23.3 million; transfers-out totalled $10.0 million. Transfers-in were 69% from BC public sector plans and 31% from other provinces. Transfers-out were 47% to BC public sector plans, and 53% to out-of-province plans.

...transfers can be made between the Teachers' Pension Plan and the College, Municipal and Public Service pension plans and other signatories.

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

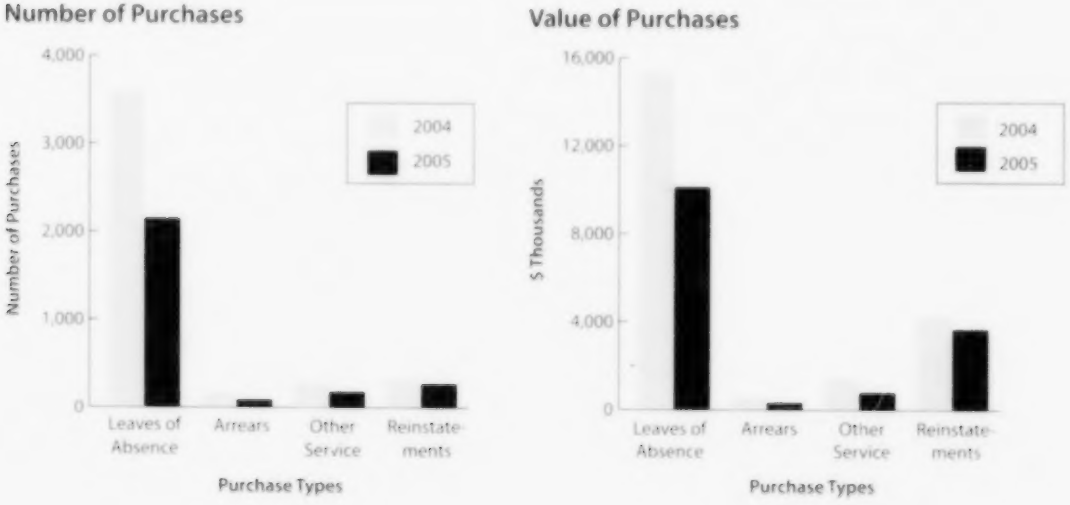
- leaves of absence (maternity, parental, or other leave)
- arrears contributions (not enrolled, but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

Purchase of service rules changed on April 1, 2002. There is a deadline for active members to apply to purchase historical periods of service (i.e., those ending prior to March 31, 2002) by March 31, 2007. Beginning April 1, 2007, active members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on the plan website at **tpp.pensionsbc.ca**.

In 2005 the number of purchases of additional service decreased 38.7% from 2004. The value of the purchases decreased 31.2%.

Member and Employer Purchases of Additional Service

Year ended December 31



Investments

Market Review

One of the major fiduciary roles of the board is the responsibility for overseeing the investment of approximately $14.0 billion in assets for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The board reviews its *Statement of Investment Policies and Procedures* (SIPP) annually, approves the long-term asset mix policy for the investment of assets and oversees the management of those assets, through the board's investment management agent, the British Columbia Investment Management Corporation (BCIMC).

Diversification of investments is a key principle in our investment policy. Investments are held in a range of asset types (e.g., bonds, equities, real estate), industry sectors and global markets.

Report on 2005 Investment Results

The board is pleased to report that the Teachers' Basic Account earned a 12.9% return in 2005. The Inflation Adjustment Account earned a 13.3% return. This is the third consecutive year of double-digit returns.

Equity, fixed income, and real estate all made solid contributions to the plan's 2005 returns, illustrating the importance of holding a diversified investment portfolio:

- The largest source of returns in 2005 came from equities, led by Canadian stocks. The plan participates in three Canadian equity pools and their returns ranged from 21.5% to 25.2%.
- Non-North American stocks also produced solid returns in 2005. The plan participates in five international equity pools and their returns ranged between 6.9% and 23.2%.
- U.S. stocks had modest gains as the returns were eroded by the U.S. dollar's depreciation against the Canadian dollar. This was partly offset by the decision to hedge some of the plan's U.S. dollar exposure. Returns ranged from 1.7% on the U.S. Index Pool to 3.8% on the U.S. Active Pool.
- Fixed income performed well, with long-term bonds providing a 14.4% return and inflation-linked bonds earning between 12.4% and 14.5%. Short-term money market funds earned a modest 2.6%.
- Real estate performed strongly, with the domestic Realpool Investment Fund returning 17.9% in 2005.

The 12.9% return of the Basic Account was 1.3% above the market benchmark of 11.6%. The added value is attributable to a number of tactical decisions made by the board's investment management agent, the BCIMC, within the policy set by the board. Examples of such decisions are the amount invested in Canadian stocks and the hedging of the U.S. dollar. The solid performance of non-North American stocks and the strong performance of real estate also contributed to the significant outcome.

The board is pleased to report that the Teachers' Basic Account earned a 12.9% return in 2005.

Outlook

There are numerous risks to global economic and financial stability in the current environment:

- large financial and trade imbalances among the world's major economic blocs
- large budget deficits in the U.S., Japan and Europe
- heavily-indebted U.S. consumers
- potential housing bubbles in some countries
- rising inflation pressure, and
- rising interest rates.

As the current economic cycle ages, and corporate profits come under pressure from rising costs for energy and other commodities, the board believes that near-term annual portfolio returns will be lower than the mid-double-digit returns experienced in the past year, and that the risk (or volatility) of those returns will increase.

Basic Account Investment Asset Mix and Performance

as at December 31, 2005

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark* (%)
Fixed Income	**25–35**			
Short-term**	0–5	2.8	2.4	2.6
Mortgages	0–10	3.7	6.2	3.3
Bonds	12–25	17.2	8.6	8.6
Real Return Bonds	0–10	4.9	12.4	15.2
Equity	**65–75**			
Canadian Equities	17–30	24.5	23.6	24.2
U.S. Equities***	10–20	14.6	3.1	2.8
International Equities	10–20	18.7	11.9	11.1
Real Estate	8–15	10.6	17.9	6.2
Private Placements	0–10	3.0	+	+

* Benchmarks are standards to compare against actual investment returns.

** Short-term includes government bonds with one- to five-year terms and money market funds.

*** Rate of return includes derivatives.

\+ Annual rate of return not applicable.

Investment Portfolio

Investments consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the fair market value of the underlying assets. In the table below, all portfolios are pooled, except Real Return Bonds, which are directly held.

Investments Held as at December 31, 2005

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	82,727	1
Bonds (1-5 years)	324,798	2
	407,525	**3**
Bonds		
Government	1,313,626	9
Corporate	443,232	3
Long-term	635,948	5
Real Return	680,511	5
	3,073,317	**22**
Canadian Equities		
Indexed	1,746,833	13
Actively Managed	1,665,719	12
	3,412,552	**25**
U.S. Equities		
Indexed	1,436,188	10
Actively Managed	585,095	4
	2,021,283	**14**
International Equities		
Asia	535,594	4
Europe	774,170	6
Europe, Australia and the Far East	1,286,084	9
	2,595,848	**19**
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	1,477,491	11
Mortgages	507,325	4
Private Placements	415,850	2
Foreign Currency	23,547	0
	2,424,213	**17**
Total Investments	**13,934,738**	**100%**
2004 Comparison	12,450,991	

For further information on the investment portfolio, visit the bcIMC website at:

www.bcIMC.com

Investments Held as at December 31, 2005

Top Ten Holdings

(Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Royal Bank of Canada	$ 166,800	4.9
Manulife Financial Corp	157,219	4.6
Encana Corporation	140,004	4.1
Bank of Nova Scotia	137,116	4.0
Toronto Dominion Bank	129,643	3.8
Suncor Energy Inc	126,479	3.7
Bank of Montreal	76,057	2.2
Canadian National Railway	75,713	2.2
Petro-Canada	69,248	2.0
Canadian Imperial Bank of Commerce	65,893	2.0
Total Top Ten	**$1,144,172**	**33.5**
Total Canadian Equities	**$3,412,552**	**100.0**

U.S Equities

Company	Market Value ($ Thousands)	% of Total U.S. Equities
General Electric	$ 59,507	2.9
Exxon Mobil Corp	53,935	2.7
Citigroup Inc	45,043	2.2
Microsoft Corp	37,681	1.9
Bank of America	35,552	1.7
American International Group	26,905	1.3
Procter & Gamble	26,309	1.3
Altria Group Inc	24,400	1.2
Johnson & Johnson	23,602	1.2
Intel Corp	23,299	1.2
Total Top Ten	**$ 356,233**	**17.6**
Total U.S. Equities	**$ 2,021,283**	**100.0**

International Equities

Company	Market Value ($ Thousands)	% of Total International Equities
Total	45,635	1.8
Royal Dutch Shell	41,114	1.6
BP	40,134	1.6
Vodafone Group	36,674	1.4
Mitsubishi Corp	34,237	1.3
Glaxosmithkline	31,612	1.2
HSBC Holdings	31,582	1.2
Nestle SA	29,392	1.1
Novartis AG	28,611	1.1
Roche Holdings AG	28,169	1.1
Total Top Ten	**$ 347,160**	**13.4**
Total International Equities	**$ 2,595,848**	**100.0**

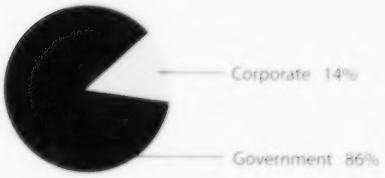
Investments Held as at December 31, 2005

Investment Holdings (Market Value)

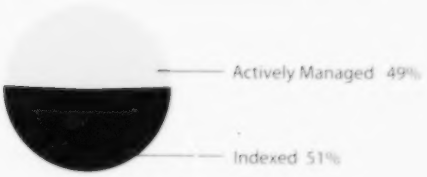
$ Billions

Canadian Equities $3.4 24.5%
Bonds $3.1 22.1%
U.S. Equities $2.0 14.5%
International Equities $2.6 18.6%
Real Estate, Mortgages, Private Placements and Foreign Currency $2.4 17.4%
Short-term $0.4 2.9%

Bonds (Market Value)

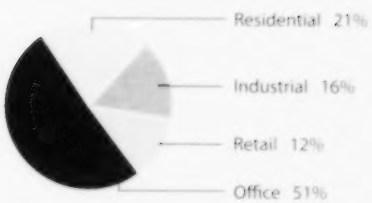


Canadian Equities (Market Value)

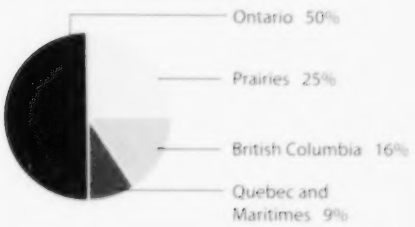


U.S. Equities (Market Value)

Real Estate, by Type



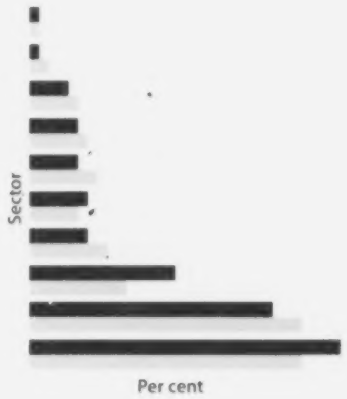
Real Estate, by Location



Investments Held as at December 31, 2005

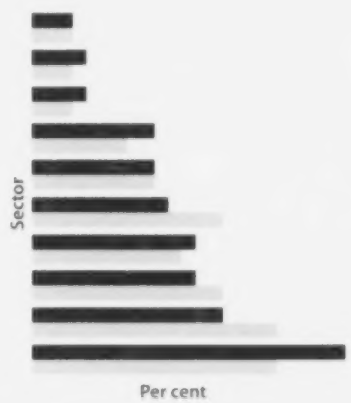
Canadian Equities, by Sector

Sector	Indexed (%)	Actively Managed (%)
Utilities	1	1
Health Care	1	2
Consumer Staples	4	5
Information Technology	5	6
Consumer Discretionary	5	7
Telecommunications	6	5
Industrial Products	6	8
Materials	15	10
Energy	25	28
Financial Services	32	28
	100%	100%



U.S. Equities, by Sector

Sector	Indexed (%)	Actively Managed (%)
Materials	3	3
Telecommunications	4	3
Utilities	4	3
Consumer Staples	9	7
Energy	9	9
Consumer Discretionary	10	14
Industrial Products	12	11
Health Care	12	14
Information Technology	14	18
Financial Services	23	18
	100%	100%



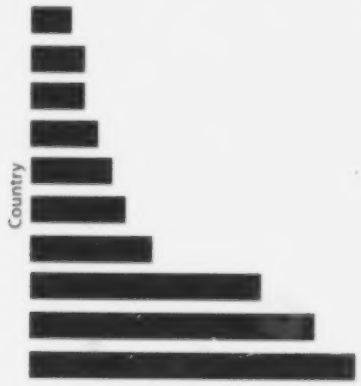
Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite).

Actively Managed: A portfolio of securities that is designed to outperform a public market index.

Investments Held as at December 31, 2005

International Equities, by Country (%)

Country	Per cent
Italy	3
Australia	4
Spain	4
Netherlands	5
Germany	6
Switzerland	7
France	9
Other Countries	17
United Kingdom	21
Japan	24
	100%



Investment Performance

Market Value Rates of Return for the Year Ended December 31, 2005

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks* (%)	
Annual Rates				
2005	**12.9**	**13.3**	**11.6**	
2004	10.4	10.8	10.5	
2003	13.0	14.5	14.5	
2002	-5.5	-3.3	-5.7	
2001	-2.1	-2.1	-3.7	
Five-year Annualized Rates**				
2005	**5.4**	**6.4**	**5.1**	
2004	4.3	5.2	4.0	
Ten-year Annualized Rates				
2005	**9.1**	**9.5**	**8.9**	
2004	9.4	9.7	9.3	
2005 Annual Rates by Investment Category				**2005 Performance Benchmark* Indices**
Short-term				
Money Market	2.6	2.7	2.6	SCI 91 Day T-Bill
Bonds	2.4	2.4	2.2	SCI Short-term Government Bond
Bonds				
Government	7.0	7.0	6.5	SCI Universe Bond
Corporate	6.1	6.1	6.5	SCI Universe Bond
Long-term	14.4	14.4	14.0	SCI Government Long-term Bond
Real Return	12.4	14.5	15.2	SCI Real Return Bond
Canadian Equities				
Actively Managed	21.5	21.5	24.2	S&P/TSX Capped Equity
Indexed	24.3	24.3	24.2	S&P/TSX Composite
Enhanced	25.2	25.2	24.2	S&P/TSX Equity
U.S. Equities***				
Actively Managed	3.8	3.8	2.9	R 1000
Indexed	1.7	1.7	1.6	S&P 500
Value	2.6	2.6	3.0	S&P 500/Barra Value
Enhanced	2.8	2.8	2.9	R1000
International Equities				
Asia	23.2	23.2	19.6	MSCI Pacific Net
Europe	7.8	7.8	6.7	MSCI Europe Net
Europe, Australia and Far East	10.3	10.3	10.7	MSCI Europe, Australasia, Far East Net
Real Estate	17.9	17.9	6.2	CPI + 4%
Mortgages				
Fixed-term	6.1	6.1	3.4	SCI Short-term Bond + 1%
Construction	6.3	6.3	3.2	SCI One-year T-Bill + 1%
Specialty	8.0	8.0	4.7	SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** The five-year annualized rate of the Basic Account is the net earned rate of the fund. An annualized rate means the rate for a five or ten-year period converted into the equivalent annual rate.

*** Rate of return does not include derivatives.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Audit Committee

Membership on the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand generally accepted accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

The mandate of the Audit Committee is to act on behalf of, and to assist the board, to provide for:

- a timely and cost-effective system of accounting and reporting
- financial statements conforming with generally accepted accounting principles
- an independent audit of the financial statements
- an annual report with audited financial statements

The committee will accomplish its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance
- monitoring and reporting on the independence and performance of the external auditors
- monitoring and reporting on risk management as it affects financial reporting
- recommending the selection and compensation of external auditors
- addressing any matter referred to the committee by one or more of the four boards

...the committee also evaluates its own performance annually through an established procedure.

Financial Health

The Teachers' Pension Plan is financially sound.

The Teachers' Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates for funding the plan. At the most recent actuarial valuation as at December 31, 2002, the Basic Account had an unfunded liability for basic pension benefits of $382 million. This unfunded liability was down slightly from the unfunded liability of $454 million at the previous valuation. The funded portion of the liability is more than 97% of total liabilities for basic pension benefits. An unfunded liability means that there is a shortfall between benefits promised and assets available to pay for these benefits, whereas a surplus means there are more than enough funds to meet the basic benefits.

On the recommendation of the actuary, the board determined that an increase in contribution rates was necessary for the pension plan to maintain its financial viability. Consequently, plan member and employer contributions each increased by 0.55% of salaries to pay down this unfunded liability over the ensuing 15 year period. (See "Contributions" section for contribution rate information.)

The next valuation will be as at December 31, 2005, with the results available in 2006.

Actuarial Valuation History as at December 31

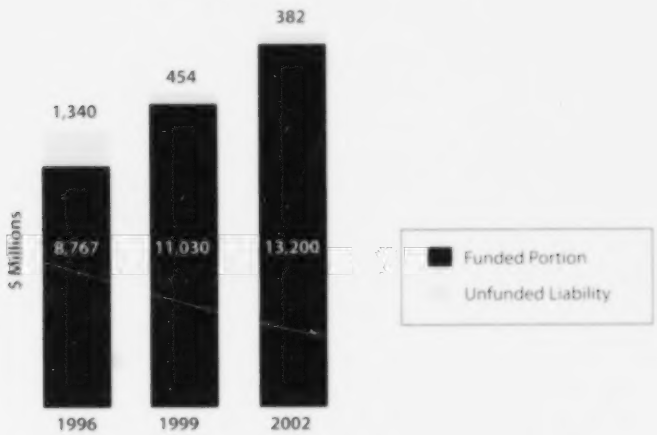
$ Millions

	Basic Pension Benefits Unfunded Liability		
	2002	1999	1996
For Funding Purposes*	$381.8	$454.4	$1,340.4
Ratio of Unfunded Liability to Covered Payroll*	17%	21%	66%
For Accounting Purposes to December 31	$551.8	$494.0	$1,421.7

* Assuming contributions continue at rates in effect at the valuation date.

See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



Five-year Financial Summary

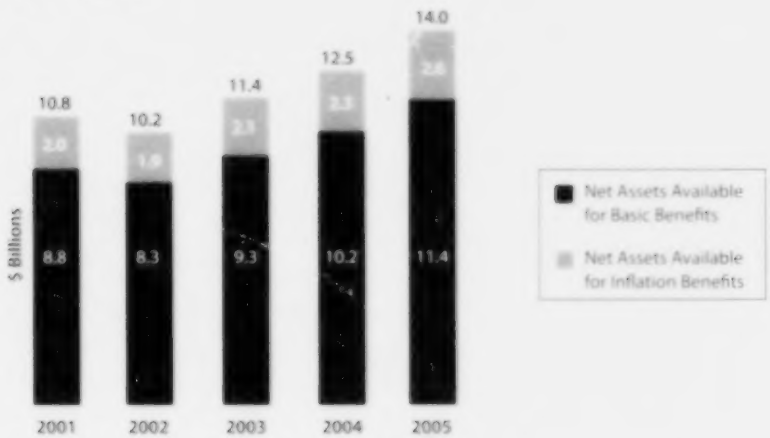
$ Thousands

For the year ended December 31	2005	2004	2003	2002	2001
Increase (Decrease) in Assets					
Total Investment Income (Loss)*	$1,632,275	$1,200,821	$1,341,143	$ (535,720)	$ (209,257)
Contributions					
Members	179,258	183,215	177,820	175,201	158,978
Employers	245,969	252,659	245,606	238,915	225,227
Province of British Columbia	–	–	–	–	10,527
Transfers from Other Plans	23,281	27,300	32,581	8,515	7,470
Total Increase (Decrease) in Assets	**2,080,783**	**1,663,995**	**1,797,150**	**(113,089)**	**192,945**
Decrease in Assets					
Pension Benefits	576,834	529,672	484,022	439,897	399,046
Termination Benefits	15,282	16,633	15,023	11,736	13,552
Transfers to Other Plans	10,023	15,325	18,508	18,237	5,284
Retired Member Group Benefits	13,361	12,019	13,718	20,124	22,954
Investment and Administration Costs*	22,803	20,073	20,540	18,853	17,240
Total Decrease in Assets	**638,303**	**593,722**	**551,231**	**508,847**	**458,076**
Increase (Decrease) in Net Assets	1,442,480	1,070,273	1,245,919	(621,936)	(265,131)
Net Assets Available for Benefits at Beginning of Year	$12,518,077	$11,447,804	$10,201,885	$10,823,821	$11,088,952
Net Assets Available for Benefits at End of Year	**$ 13,960,557**	**$12,518,077**	**$11,447,804**	**$10,201,885**	**$10,823,821**
Investment and Administration Costs		As a Percentage of Net Assets			
Investment Management*	0.17%	0.15%	0.15%	0.16%	0.14%
Benefit Administration	0.06%	0.05%	0.07%	0.07%	0.06%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $8.4 million (2004 – $5.5 million; 2003 – $4.1 million; 2002 – $4.5 million; 2001 – $4.3 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets. These costs have been restated for comparative purposes.

Net Assets Available for Benefits

as at December 31



PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
1 800 663-8823
Fax:
250 953-0429

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Teachers' Pension Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Teachers' Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

BRIAN PEARSON, CGA
A/Director, Finance
British Columbia Pension Corporation

April 7, 2006

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Teachers' Pension Plan

We have audited the statement of net assets available for benefits of the Teachers' Pension Plan as at December 31, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2005 and the results of its operations and changes therein for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 7, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Teachers' Pension Plan

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31	2005	2004
ASSETS		
Investments (Note 3)	$13,934,738	$12,450,991
Receivables		
Members' contributions	8,734	9,535
Employers' contributions	12,607	13,281
Accrued investment income	1,648	1,593
Due from sale of investments	10,077	40,257
	33,066	64,666
Prepaid expenses	1,199	1,467
Cash	4,663	12,565
Total Assets	$13,973,666	$12,529,689
LIABILITIES		
Accounts payable and accrued expenses	13,109	11,612
Total Liabilities	13,109	11,612
NET ASSETS AVAILABLE FOR BENEFITS	$13,960,557	$12,518,077

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

John W. Cook, F.C.I.A.
Chair, Teachers' Pension Board of Trustees

Wayne Jefferson
Trustee,
Teachers' Pension Board of Trustees

Ken Smith
Trustee,
Teachers' Pension Board of Trustees

Teachers' Pension Plan

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2005	Totals 2004
INCREASE IN ASSETS					
Investment income (Note 4)	$ 1,323,816	$ 308,459	$ -	$ 1,632,275	$ 1,200,821
Contributions (Note 5)					
Members'	134,795	44,460	3	179,258	183,215
Employers'	220,672	11,429	13,868	245,969	252,659
	355,467	55,889	13,871	425,227	435,874
Transfers from other plans	17,895	5,386	-	23,281	27,300
Total Increase in Assets	1,697,178	369,734	13,871	2,080,783	1,663,995
DECREASE IN ASSETS					
Pension benefits					
Contributory	479,109	-	171	479,280	437,521
Indexing supplements	97,543	-	11	97,554	92,151
	576,652	-	182	576,834	529,672
Termination and refund benefits	9,711	5,571	-	15,282	16,633
Transfers to other plans	7,783	2,240	-	10,023	15,325
Retired member group benefits (Note 10)	-	-	13,361	13,361	12,019
Investment and Administration costs (Note 9)	19,713	2,762	328	22,803	20,073
Total Decrease in Assets	613,859	10,573	13,871	638,303	593,722
INCREASE IN NET ASSET BEFORE TRANSFERS	1,083,319	359,161	-	1,442,480	1,070,273
Account transfers (Note 6)	90,299	(90,299)	-	-	-
INCREASE IN NET ASSETS	1,173,618	268,862	-	1,442,480	1,070,273
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	10,166,091	2,351,986	-	12,518,077	11,447,804
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 11,339,709	$ 2,620,848	$ -	$ 13,960,557	$ 12,518,077

Supplemental Benefits Account (Note 10)

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The Teachers' Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the provincial government and the B.C. Teachers' Federation (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (Board) and provides the authority for the rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Joint Trust Agreement and the Plan rules.

a) General

The Plan is open to all certified teachers (including teachers-on-call), principals and vice-principals, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to eleven members. The Partners appoint ten trustees representing Plan members and Plan employers. The other trustees appoint the eleventh member, the chair. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 5.55% (5.0% to June 30, 2004) of salaries up to and including the Canada Pension Plan's Maximum Pensionable Earnings (YMPE) ($41,100 in 2005) and 7.05% (6.5% to June 30, 2004) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Note 5 and 10).

Employers contribute to the Basic Account 9.55% (9.0% to June 30, 2004) of salaries up to and including the YMPE and 11.05% (10.5% to June 30, 2005) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Note 5 and 10).

Inflation Adjustment Account
Members contribute 2% of salaries to the Inflation Adjustment Account. Employers contribute 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (Note 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service totaling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

d) Pension Benefits (continued)

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2005, retired members received a full CPI increase of 1.8% (2004: 2.2%). At January 1, 2006, retired members will receive a full CPI increase of 3.4%.

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under 60 with less than two years of contributory service, may choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which is included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (FAIR VALUE)

	2005			2004
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 311,069	$ 96,456	$ 407,525	$ 98,936
Canadian Bonds	2,502,183	571,134	3,073,317	3,051,204
Canadian Equities	2,777,038	635,514	3,412,552	3,267,813
U.S. Equities	1,646,610	374,673	2,021,283	1,850,774
International Equities	2,111,679	484,169	2,595,848	2,069,281
Foreign Currency	19,092	4,455	23,547	21,996
Mortgages	415,318	92,007	507,325	497,071
Real Estate	1,203,769	273,722	1,477,491	1,239,842
Private Placements	334,781	81,069	415,850	354,074
	$11,321,539	$ 2,613,199	$ 13,934,738	$12,450,991

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit entitles the holder to a proportionate share of the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate is valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

$12.4 million (2004:$0 million) of Basic Account Canadian bonds are being held in a collateral account for a future investment opportunity (Note 11).

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

4. INVESTMENT INCOME

	2005			2004
	Income Allocation	Current Period Change In Fair Value	Total	Total
	($ Thousands)			
Basic Account				
Short-term	$ 5,113	$ (2,790)	$ 2,323	$ 3,950
Canadian Bonds	117,658	111,931	229,589	213,666
Canadian Equities	53,847	479,877	533,724	368,616
U.S. Equities	31,834	81,763	113,597	104,744
International Equities	50,270	168,598	218,868	156,518
Foreign Currency	468	(343)	125	2,093
Mortgages	23,862	1,744	25,606	26,472
Real Estate	23,070	149,251	172,321	82,637
Private Placements	984	26,679	27,663	12,148
	$ 307,106	$1,016,710	$1,323,816	$ 970,844
Inflation Adjustment Account				
Short-term	$ 1,884	$ (840)	$ 1,044	$ 1,310
Canadian Bonds	25,751	27,139	52,890	51,746
Canadian Equities	12,177	111,484	123,661	80,723
U.S. Equities	6,732	15,244	21,976	28,063
International Equities	11,260	38,715	49,975	38,116
Foreign Currency	109	(74)	35	507
Mortgages	5,281	394	5,675	5,922
Real Estate	4,966	33,897	38,863	18,891
Private Placements	1,064	13,276	14,340	4,699
	$ 69,224	$ 239,235	$ 308,459	$ 229,977
Total Investment Income	$ 376,330	$1,255,945	$1,632,275	$1,200,821

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

5. CONTRIBUTIONS

	2005				2004
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)		
Members' contributions					
Regular	$ 127,962	$ 43,047	$ -	$171,009	$171,810
Arrears	72	26	-	98	215
Purchase of service	212	86	-	298	594
Leave of absence	3,082	1,117	-	4,199	6,339
Reinstatement	3,467	184	-	3,651	4,220
Supplemental benefits	-	-	3	3	37
	$ 134,795	$ 44,460	$ 3	$179,258	$183,215
Employers' contributions					
Regular	$ 214,799	$ 10,738	$ -	$225,537	$230,112
ERIP contributions	-	-	-	-	20
Arrears	179	20	-	199	340
Purchase of service	416	49	-	465	823
Leave of absence	5,278	622	-	5,900	8,978
Reinstatement	-	-	-	-	7
Supplemental benefits	-	-	13,868	13,868	12,379
	$ 220,672	$ 11,429	$ 13,868	$245,969	$252,659
Total Contributions	$ 355,467	$ 55,889	$ 13,871	$425,227	$435,874

Member and employer contributions are as defined under the Plan rules.

Employer regular Basic Account contributions were $215.0 million, of which $192 thousand was allocated to the Supplemental Benefits Account. Employer regular Inflation Adjustment Account contributions were $24.4 million, of which $13.7 million was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2005		2004	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
		($ Thousands)		
Present value of current indexing supplements	$ 87,775	$ (87,775)	$ 95,669	$ (95,669)
Indexing of deferred pensions	2,524	(2,524)	2,652	(2,652)
Excess interest	-	-	-	-
	$ 90,299	$ (90,299)	$ 98,321	$ (98,321)

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

6. ACCOUNT TRANSFERS (continued)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2005. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $ 5.4 billion of assets for 2005 (2004: $5.0 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return and the rate of return used by the actuary (7.25%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2005 was -1.85%; (2004: -2.95%), resulting in a negative excess interest amount of $100.7 million (2004: $147.2 million). The cumulative negative excess interest amount, including interest applied on cumulative excess amounts, is $499.3 million which will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2002. This valuation disclosed an unfunded actuarial liability (UAL) for basic pension benefits of $382 million (1999: $454 million UAL), assuming future contributions at the contribution rates in effect at the valuation date.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The following long-term actuarial assumptions were used:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

The next full actuarial valuation will be at December 31, 2005 for inclusion in the December 31, 2006 financial statements.

The Joint Trust Agreement (Agreement) specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the Plan on a going-concern basis, the increase is shared equally by members and employers.

Based on the results of the 2002 actuarial valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper financing. Therefore, the trustees decided that, effective July 1, 2004 member and employer contribution rates were each increased by 0.55% of salaries, as recommended by the actuary.

Also during this transitional period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates
- Providing specified benefit improvements

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA) (continued)

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, where the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for as yet unknown future indexing.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The latest full valuation was made as at December 31, 2002, by Eckler Partners Ltd., The results were as follows:

As at December 31	2002	1999
	($ Millions)	
Net assets available for basic pension benefits	$ 8,275	$ 8,553
Five year market value smoothing adjustment	1,071	(1,082)
Net actuarial assets for basic pension benefits	9,346	7,471
Liability for accrued basic pension benefits	(9,898)	(7,965)
Unfunded Actuarial Liability (UAL)	$ (552)	$ (494)

The next full actuarial valuation will be at December 31, 2005 for inclusion in the December 31, 2006 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2005, using the following long-term actuarial assumptions:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

On this basis, the extrapolated value of the UAL at December 31, 2005 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits

As at December 31	2005	2004
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 10,623	$ 9,976
Account transfers	90	98
Current year contributions	355	362
Net transfers from (to) other plans	10	9
Pension, termination and refund benefits	(587)	(540)
Administration costs	(7)	(6)
Interest accrued on assets	768	724
Extrapolated actuarial assets, end of year	$ 11,252	$ 10,623

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at December 31	2005	2004
	($ Millions)	
Extrapolated actuarial liability for accrued basic pension benefits, beginning of year	$ 11,185	$ 10,538
Account transfers	90	98
Current period benefit cost	304	323
Net transfers from (to) other plans	10	9
Pension, termination and refund benefits	(587)	(540)
Administration costs	(7)	(6)
Interest accrued on liability	808	763
Extrapolated liability for accrued basic pension benefits, end of year	$ 11,803	$ 11,185
Extrapolated Unfunded Actuarial Liability (UAL), December 31	$ (551)	$ (562)
Fair value of Basic Account net assets available for benefits	$ 11,340	$ 10,166
Fair value changes not reflected in extrapolated actuarial value of net assets	(88)	457
Extrapolated actuarial value of net assets available for benefits	$ 11,252	$ 10,623

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2005	2004
	($ Thousands)	
Investment Management	$ 15,315	$ 13,482
Benefit Administration	6,835	6,130
Board Remuneration and Expenses	181	178
Board Secretariat Costs	181	102
Other Professional Services	291	181
	$ 22,803	$ 20,073

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

9. INVESTMENT AND ADMINISTRATION COSTS (continued)

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by the investment pooled funds.

Investment management cost of $8.4 million (2004: $5.5 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $820 thousand (2004: $932 thousand) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional service costs include actuarial, insurance, audit and legal fees.

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of retired member group benefit coverage is contingent upon the availability of funding for such benefits.

To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and cannot exceed 0.8% of pensionable salaries. Currently this represents approximately 71% of contributions that would otherwise be employer inflation contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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11. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2005, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $450 million (2004: $296 million).

During 2005, bcIMC established a collateral account pledged as security for a future investment opportunity that will not be funded until 2009. As at December 31, 2005, $12.4 million of Basic Account Canadian bonds are being held as collateral for an investment commitment of $10.4 million.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximates their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Foreign Currency Risk
Foreign currency exposure arises from the Plan's holdings of foreign currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Market Risk
The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL INSTRUMENTS (continued)

Credit Risk

The plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

Teachers' Pension Board of Trustees

MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

This is a publication of the Teachers' Pension Board of Trustees.
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Teachers' Pension Plan

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